

Message Text

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ACTION INR-07

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 EB-07

NSC-05 CIEP-01 TRSE-00 SS-15 OMB-01 CEA-01 COME-00

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 0957

C O N F I D E N T I A L LONDON 06075

PASS TREASURY AND FRB

E.O. 11652: GDS

TAGS: EFIN, UK

SUBJECT: FINANCING EASTERN EUROPE'S TRADE WITH THE WEST

REF: LONDON 5757; STATE 38308; STATE 88453; LONDON 4118

1. EASTERN EUROPEAN CREDIT OFFICER OF ONE OF LARGEST U.S. BANKS CALLED FINANCIAL ATTACHE FOR FURTHER DISCUSSION OF EASTERN EUROPEAN TRADE FINANCING. HE REPORTS THAT BASED ON LATEST ASSESSMENTS HE HAS SEEN, USSR APPEARS TO BE CURRENTLY SEEKING 100 PERCENT IMPORT FINANCING; PREVIOUSLY USSR HAD BEEN MAKING 15 PERCENT DOWNPAYMENTS. IN ADDITION. A US EXPORTER OF INDUSTRIAL EQUIPMENT HAD BEEN SCHEDULED TO RECEIVE A 35 MILLION DOLLAR CASH PAYMENT IN JULY-AUGUST. USSR HAS NOW ASKED FOR REFINANCING TO JANUARY-FEBRUARY 1977; THIS TOOK PLACE WITHIN THE LAST 10 DAYS. SOURCE SAID HE WAS "SURPRISED AND BOTHERED" BY THESE DEVELOPMENTS.

2. INCREASED SUPERVISION AND POLITICAL INFLUENCE IS SEEN IN A RECENT ATTEMPT TO ARRIVE AT A SYNDICATED BANK CREDIT FOR THE FOREIGN TRADE BANK OF EASTERN GERMANY. FOREIGN TRADE BANK OFFICIALS EARLIER INDICATED THEY WERE WILLING TO SIGN THE DEAL AND AUTHORIZED TO ACCEPT MARKET TERMS, CONFIDENTIAL

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BUT HAVE MORE RECENTLY SAID THEY CAN NO LONGER MAKE ANY

DECISION ON FOREIGN BORROWING WHICH MUST BE REFERRED FOR POLITICAL APPROVAL, WHICH APPARENTLY HAS NOT BEEN FORTHCOMING.

3. THIS U.S. BANKER THOUGHT THAT EASTERN BLOC COUNTRIES WITH EXCEPTION OF POLAND HAVE THEIR DEBT SERVICING REQUIREMENTS UNDER GOOD CONTROL. IT IS THE SOVIET UNION. IN THIS BANKER'S OPINION, WHICH IS THE EGREGIOUS EXCEPTION. IN ADDITION, MANY U.S. BANKS ARE CLOSE TO THEIR LENDING LIMITS FOR CREDITS TO THE USSR.

4. SUMMING UP HIS IMPRESSION OF CURRENT TONE OF MARKET, SOURCE SAID THAT FOR A 5-YEAR SYNDICATED LOAN. MARKET WOULD EXPECT SOVIET UNION TO PAY 1-3/8 OVER LIBO; CZECHOSLOVAKIA. HUNGARY. THE TWO EASTERN BLOC BANKS, I.E., IIB AND IBEC, ROMANIA AND BULGARIA WOULD PAY 1-1/2 OVER; POLAND WOULD PROBABLY BE UNDER PRESSURE TO PAY 1-5/8 TO 1-3/4. FOR ALL THE COUNTRIES CONCERNED, AN INCREASING NUMBER OF U.S. BANK CUSTOMERS (I.E., MANUFACTURERS AND EXPORTERS) ARE ATTEMPTING TO HAVE THE BANKS CARRY THE CREDIT RISK.

5. WHEREAS THE SOURCE DID NOT ANTICIPATE ANY SERIOUS RESCHEDULING OR NONPAYMENT PROBLEMS. HE SPECULATED THAT A SERIES OF UNUSUAL CIRCUMSTANCES COMING TOGETHER SUCH AS A BAD HARVEST, A SUBSTANTIAL SYNDICATED ISSUE BY ONE OF THE EASTERN BLOC BANKS IN THE RANGE OF 500 - 600 MILLION DOLLARS AND BAD POLITICAL OR ECONOMIC NEWS COULD QUICKLY RESULT IN A SITUATION WHERE THERE WOULD BE SUBSTANTIAL RESISTANCE FROM LENDERS TO ENTER INTO A NEW SYNDICATED OPERATION FOR THE BENEFIT OF AN EASTERN BLOC BORROWER.

6. DEPARTMENT PLEASE PASS THIS MESSAGE, LONDON 5757 AND LONDON 4118 TO OTHER POSTS IF DESIRED.

ARMSTRONG

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Message Attributes

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